



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley  
Auditor-Controller

SUBJECT: **FISCAL AND OPERATIONS REVIEW—DEPARTMENT OF THE  
REGISTRAR-RECORDER/COUNTY CLERK**

We conducted a review of the Registrar-Recorder/County Clerk's (Department) cash and check collection activities. Our review was conducted in conjunction with the management review completed by a private auditing firm (Strategica). Strategica's review focused on actions the Department could take to improve efficiency and customer service through technological advancements and the development of a strategic plan.

Our review focused on evaluating the Department's internal controls over cash collections and deposits, the efficiency of its cash handling operations and procedures, and its compliance with County fiscal policy. Because of the significance of the control weaknesses noted in the Department's cash handling areas, we are issuing this report as the first phase of our review. We will begin our review of the Department's remaining fiscal areas in August 2002.

**Summary of Findings**

The Department is staffed and managed by dedicated individuals who are challenged by the need to comply with complex State Codes, maintain positive relationships with both city and State governments, and satisfy a high volume of customer demands. However, as detailed throughout this report, we noted a number of areas where internal control weaknesses exist in the Department's collection and depositing activities. In some instances, the weaknesses significantly increase the risk of funds being misappropriated without detection.

Many of the control weaknesses are the result of cumbersome policies and procedures that are applied inconsistently among the Department's various collection units. This

may be, in part, due to the fact that cashiering staff do not report centrally to the Department's Finance Office. Instead, cashiering staff report to their respective functional divisions. Further, the heads of the functional divisions generally are not experienced financial personnel. As a result, some of the Department's collection procedures are not based on sound financial practices. For example, in one division, cashiering staff use their cash registers primarily as adding machines. The registers are not used to account for the amount of funds collected. Instead, this division uses hand-written logs to account for millions of dollars in cash and checks received each year.

We also believe management could have identified and corrected some of the control weaknesses through improved monitoring of collection activities. While the Department identified certain weaknesses in their Annual Internal Control Certification Report to the Auditor-Controller, we noted the Department did not identify many critical control issues. The following are examples of our findings.

### **Voided Receipts**

We noted cashiers are voiding numerous receipts and transactions without supporting documentation or supervisory review and approval, and that the cash registers were not programmed to require supervisory approval for voided transactions. By not maintaining copies of voided receipts or requiring supervisory approval for the voids, the Department is not ensuring that transactions are legitimately voided, and the Department is susceptible to cashier theft.

### **Cash Register Receipt Modification**

We noted cash register receipts and other deposit support are changed without supervisory approval or explanation. For example, Document Recording deposit documentation included numerous, unexplained changes and cross-outs. There was no indication as to who made the changes, why the changes were made, or whether the changes were approved.

To help ensure all funds are accounted for, the Department should ensure staff document the reasons for all changes to cash register tapes and deposit records, ensure supervisors properly authorize the changes, and investigate unusual changes.

### **Physical Security over Cash**

We noted several areas where the Department can improve security over cash collections. For example, we noted instances where:

- Cash register keys were left in registers.
- Cashiers knew each other's personal access numbers to open the cash register drawers, and cash drawers were accessed by multiple individuals.
- Surveillance cameras and supervisors were not situated to adequately monitor employees.
- Cashiers were not in the direct view of the supervisor.

These problems increase the risk of theft or fraud and make it very difficult to establish employee accountability over cashiering activities.

### **Deposit Controls**

We noted the Department does not deposit customer checks within one day as required by the County Fiscal Manual. For example, while the Document Recording Division deposits cash the day after collection, checks are held approximately two weeks until fiscal staff reconcile all collection information. In addition, we noted supervisors do not review and approve deposit records prior to deposit. As a result, we noted instances where the amounts deposited did not match deposit records.

### **Document Recording**

We noted that Document Examiners occasionally make errors in calculating customers' document recording fees. While the error amounts per document were relatively small, considering the Department records an average of 2 million documents per year, the total incorrect fees could be significant. The Department should consider implementing a spot-check system for recording fees to identify employees making errors, and take corrective action as necessary.

### **Conclusion**

The Department needs to take a number of comprehensive actions to improve its collection activities. Our key recommendations include evaluating the reorganization of cashiering operations to report centrally to the Department's Finance Office, and developing uniform collection and depositing procedures throughout the Department, to the extent practical. Details of our findings and additional recommendations for corrective action are included in the attached report.

Department management was very cooperative during our review and actively participated in the review process. Management has recognized the need for improvement and has indicated its commitment to correcting problem areas noted. Their response to this report is attached.

If you have any questions about this report, please contact me or have your staff contact DeWitt Roberts at (213) 974-0301.

JTM:DR:MP

Attachment

c: David E. Janssen, Chief Administrative Officer  
Conny McCormack, Registrar-Recorder/County Clerk  
Violet Varona-Lukens, Executive Officer  
Public Information Officer  
Audit Committee

## **Department of the Registrar-Recorder/County Clerk Fiscal Management Review**

### **Comments and Recommendations**

#### **Scope**

We conducted a review of the Registrar-Recorder/County Clerk's (Department) cash and check collection activities. Our review was conducted in conjunction with the management review completed by a private auditing firm (Strategica). Strategica's review focused on actions the Department could take to improve efficiency and customer service through technological advancements and the development of a strategic plan.

Our review focused on evaluating the Department's internal controls over cash collections and deposits, the efficiency of its cash handling operations and procedures, and its compliance with County fiscal policy. Because there are fewer over-the-counter cash and check collections for County Clerk activities, we limited our review to the Registrar-Recorder's collections, including collections at the Recorder's headquarters and six outlying offices.

Because of the significance of the control weaknesses noted in the Department's cash handling areas, we are issuing this report as the first phase of our review. We intend to begin our review of the Department's remaining fiscal areas in August 2002.

#### **Background**

The Department receives cash and checks over-the-counter and through the mail from fees charged to customers for a variety of services including recording real estate deeds and trusts, processing birth and marriage certificates, issuing business licenses, and providing customers copies of previously recorded documents. The Department's annual budget is approximately \$65 million and the Department collects and distributes nearly \$190 million in revenue per year. Approximately 55% of this revenue is deposited in the County's General Fund and the remainder is allocated to cities within the County. Funds are collected primarily in six sections:

- Document Recording--Recorder
- Vitals (Birth, Death, and Marriage)--Recorder
- Business Filing--County Clerk
- Real Estate Records--Recorder
- Election Information--Registrar
- Campaign Reporting--Registrar

## **Summary**

As detailed throughout this report, we noted a number of areas where internal control weaknesses exist in the Department's collection and depositing activities. In some instances, the weaknesses significantly increase the risk of fraud or misappropriation of funds.

Many of the control weaknesses are the result of cumbersome, non-uniform, inconsistent policies and procedures among the Department's various collection units. Each collection unit has developed separate methods to account for, control, and report their collections. This may be, in part, due to the fact that cashiering staff do not report centrally to the Department's Finance Office but, rather report separately to their respective functional sections, such as Document Recording, Vital Records, Real Estate Records, etc. In addition, Finance Office staff are not involved in establishing or reviewing cashiering procedures. Further, the heads of the functional sections generally are not experienced financial personnel. As a result, some of the Department's collection procedures are not based on sound financial practices. For example, in one section, cashiering staff use their cash registers primarily as adding machines. The registers are not used to account for the amount of funds collected. Instead, this section uses hand-written logs to account for millions of dollars in cash and checks received each year.

We also believe management could have identified and corrected some of the control weaknesses through improved monitoring of collection activities. While the Department identified certain weaknesses in their Annual Internal Control Certification Report to the Auditor-Controller, such as cash register assignment and out-of-state check acceptance policies, we noted the Department did not identify many other critical control issues. In addition, in the areas where weaknesses were identified, the Department did not identify all of the units where these problems existed.

To begin the process of improving its collection activities, Department management should take the following actions:

- Reorganize cashiering operations such that all cashiering staff report to the Department's Finance Office.
- Develop uniform collection and depositing procedures throughout the Department. The procedures should be developed by the Department's Finance Office and should be standardized across functional lines to the extent practical.
- Consider implementing an internal compliance review unit to monitor high-risk activities including over-the-counter and mail collections. The monitoring staff should be independent of the various functions being monitored.

By taking these initial actions, the Department will achieve greater consistency in its collection activities and will be better able to implement the specific control

enhancements discussed in the remainder of this report. In addition, management will be better able to identify instances of non-compliance with policies and procedures and take more immediate action.

Department management indicated that cashier duties are directly linked to the responsibilities of the individual units and therefore, it may not be practical to have cashiers report to the Department's finance office. In addition, management indicated they are in the process of reengineering the Recorder's Bureau as part of a multi-year effort. Once the functions are reorganized, management believes the need to centralize cashiers will be mitigated.

Based on our observations, most cashiering functions, such as accounting for the collections of cash and checks, providing receipts, etc., would not need to be significantly customized for individual units. As part of the reengineering process, we believe the Department should evaluate all cashiering units for possible consolidation into the finance office. At a minimum, management should ensure finance office managers help establish cashiering procedures, ensure the procedures are appropriate and uniform, and monitor for compliance.

### **Recommendations**

#### **Department management:**

- 1. Evaluate reorganizing cashiering operations such that cashiering staff report to the Department's financial office. If management determines a cashiering reorganization is not practical, ensure finance office managers help establish cashiering procedures, ensure the procedures are appropriate and uniform, and monitor for compliance.**
- 2. Develop uniform collection and depositing procedures throughout the Department to the extent practical.**
- 3. Consider implementing an internal compliance review unit to monitor high-risk activities including over-the-counter and mail collections. The monitoring function should be performed by individuals independent of the various functions being monitored.**

### **Collection Controls**

#### **Background**

The Department provides a variety of services to the public. The services provided by the Department's major sections are discussed below.

- The Department's Document Recording Section is responsible for the recordation of public documents in the County. The Section records an average of 2 million

documents per year received from title companies, walk-in customers, government agencies, field locations, and by mail.

- The Vital Records Section maintains and issues certified copies of birth, death and marriage certificates to the public. The Section also issues marriage licenses and conducts civil marriage ceremonies. The Section issues approximately 350,000 certificates, 500,000 certified record copies, 60,000 marriage licenses, and conducts 7,500 marriage ceremonies annually.
- The Real Estate Records Section helps customers search for public records such as trust deeds, titles, and fictitious name filings. Customers search the Department's databases and request official copies. The Section issues approximately 170,000 copies of Real Estate documents per year.
- The Business Filing Section is responsible for reviewing and filing different statements, bonds and reports. This includes fictitious business name statements, swearing in new notary publics, filing bonds for process servers, and filing public agency rosters. The Section reviews approximately 160,000 business filings and over 100,000 fictitious business name statements per year.

The Department charges fees for each of the services described above, and the Department receives cash and checks from walk-in customers, title companies, over the internet, through field offices (collections are sent to and deposited by Headquarters staff), and by mail. All of the Department's collection areas are equipped with cash registers. Our review consisted of testing collections and deposits for accuracy. In addition, we documented the various collection and depositing procedures, performed surprise cash counts, and evaluated internal controls.

We noted several weaknesses in the Department's use of cash registers and weaknesses in accountability over cash. The control weaknesses we noted create an environment where fraud could take place without detection.

### **Voided Receipts**

Cashiers are voiding numerous receipts and transactions without documentation or supervisory review and approval.

We reviewed the Department's cash register receipts and supporting documentation for the Vitals Section on five different days at both the Department's Headquarters and branch offices. We also reviewed cash register receipts and supporting documentation for the Business Filing Section on four different days. We noted 17 employees at the Department's Headquarters and 12 employees at the Department's branch offices voided 84 transactions totaling \$2,294 on their cash registers at the Vitals Section and two employees voided two transactions totaling \$70 at the Business Filing Section. One employee in the Vitals Section had as many as eight voids totaling \$536, another had 15 voids totaling \$205. We noted the cash registers were not programmed to require

supervisory approval for voided transactions and, as indicated, there was no supporting documentation, approval, or explanations for any of the voids.

County Fiscal Manual (CFM) Section 1.3.3 states that cashiers should obtain supervisor approval for any voided receipt. In addition, Department policy indicates that cashiers must maintain all voided receipts and obtain supervisory approval for all voids. By not maintaining copies of voided receipts or requiring supervisory approval for the voids, the Department is not ensuring that transactions are legitimately voided, and the Department is susceptible to cashier theft. The Department needs to ensure that cashiers maintain all voided receipts and obtain approval from their supervisors when transactions are voided. The Department should also re-train staff on the appropriate procedures to follow when voiding receipts, and Department managers should periodically spot check voided transactions to ensure staff and supervisors are following procedures.

### **Recommendations**

#### **Department management:**

- 4. Ensure that cashiers maintain all voided receipts and obtain approval from their supervisors when transactions are voided.**
- 5. Ensure all cash registers are programmed to require supervisory approval for voided transactions, and re-train staff and managers on the proper procedures for voiding receipts.**
- 6. Periodically spot check voided transactions to ensure staff and supervisors are following procedures.**

### **Cash Register Receipt Modification**

We noted cash register receipts and other deposit support are changed without supervisory approval or explanation. During our testwork of Vitals Section deposits, we noted various amounts were changed or crossed out on five cash register tapes for three of the five days tested. Due to the unexplained differences, the deposits were an average of \$27 less per day than they should have been per the register tapes. We also noted one instance where the amount deposited was changed without approval. While the amount was immaterial (\$0.25), this unapproved change is representative of a weakness in the deposit process for the Vitals Section.

We also noted Document Recording deposit documentation included numerous, unexplained changes and cross-outs. There was no indication as to who made the changes, why the changes were made, or whether the changes were approved. We noted as many as seven unexplained changes totaling \$841 in a single day and single unexplained adjustments as large as \$761.



Finance Section supervisors offered possible explanations for the adjustments, however, they could not be certain of the reasons due to the lack of supporting documentation and accountability. As a result, deposit integrity is not maintained.

CFM 1.3.3 states missing, stolen, defaced, or damaged receipts should be investigated immediately and reported to appropriate departmental management. The Fiscal Manual also states that any receipts that have been altered and not marked as “void” should be investigated. These procedures are necessary to safeguard collections so that individuals cannot manipulate them for personal gain.

### **Recommendation**

- 7. Department management ensure staff document the reasons for all changes to cash register tapes and deposit records, ensure supervisors properly authorize the changes, and investigate unusual changes.**

### **Receipt Accountability**

Cash register receipts are not properly accounted for in the Vitals, Real Estate Records, and Business Filing Sections.

- We reviewed five daily deposits in the Vitals Section and noted 36 transactions, totaling \$402, where the receipt was missing. As a result, we were unable to verify whether receipts matched collections for the five days tested.
- We reviewed five daily deposits in the Real Estate Records Section and noted 14 transactions where individual receipts were missing. Additionally, for four of the five deposits, the internal cash register tapes were missing. As a result, we were unable to ensure the correct amount was deposited for four of the five days tested.
- We reviewed four daily deposits in the Business Filing Section. In three of the four deposits, we noted 19 transactions with missing receipts and 6 transactions with duplicate receipt numbers.

CFM Section 1.3.3 states supervisors must ensure that receipts are used in sequential order and that all receipts are accounted for. When receipts are not accounted for, particularly for cash transactions, the risk of theft increases. The Department should carefully account for all receipts and cash register tapes and reconcile them to deposits to detect irregularities.

### **Recommendation**

- 8. Department management ensure all receipts and cash register tapes are accounted for and reconciled to deposits.**

### **Branch Deposit Tracking**

CFM Section 1.3.6 states that collections must be deposited promptly and intact. At RR/CC, this does not always occur.

We reviewed branch office deposits over a two-week period and noted 14 instances on seven separate days where the Department did not receive collections for two of the branch offices. Upon further investigation, we noted numerous situations where the branch offices combined and submitted multiple days' collections, and other days where branch offices submitted no collections. Further, we noted situations where branch offices submitted a portion of a single day's collections on one day, and the remainder on another day. Due to the volume of information associated with each deposit, we did not reconcile branch collections to ensure all funds were deposited for the days tested.

Management needs to implement procedures to track collections received from branch offices to ensure all branch office collections are deposited promptly and intact. In addition, the Department should reconcile a sample of branch collections noted above to determine if funds can be accounted for, and follow-up on any problems noted.

### **Recommendations**

#### **Department management:**

- 9. Require branches to deposit funds daily and intact, and develop procedures to track branch collections to ensure they are properly deposited.**
- 10. Reconcile a sample of the branch collections noted above to determine if funds can be accounted for, and follow-up on any problems noted.**

### **Physical Security over Cash**

We noted several areas where the Department can improve security over cash collections.

### **General Issues**

We observed the cashiers in several of the sections to gain an understanding of their daily duties and the overall security of the cashiering areas. We noted instances where:

- Cash register keys were left in registers.
- Cashiers knew each other's personal access numbers to open the cash register drawers.

- Surveillance cameras and supervisors were not adequately situated to monitor employees. For example, in the Document Recording Section, we noted employees working in the vault room were positioned out of view of the surveillance camera.
- Cashiers were not in the direct view of the supervisor.
- Cash drawers were accessed by multiple individuals.
- Safe combinations were not changed from three to five years.
- The employee cashiering areas were easily accessible by the public.

The issues described above increase the risk of theft or fraud and make it very difficult to establish employee accountability over cashiering activities. The Department should take actions to improve security in the cashiering areas.

### **Recommendations**

#### **11. Department management take actions to improve security in the cashiering areas. These actions should include:**

- **Ensuring all areas of the vault room can be clearly seen on camera and that supervisors can adequately monitor employees handling cash.**
- **Restricting employee access to cash drawers.**
- **Periodically changing critical safe combinations.**
- **Ensuring cashiering areas are not easily accessible to the public.**

### **Revolving Funds**

We reviewed the Department's internal reports and conducted internal control assessments at two of the Department's field offices. We noted the following revolving fund cash security issues:

- The revolving fund is kept in an unlocked safe at both of the field offices reviewed. CFM 1.6.3 states all revolving fund monies must be secured at all times in a locked safe, locked file cabinet or locked cash drawer.
- For one of the field offices, the custodianship of the fund is assigned to more than one individual. CFM 1.6.3 states that responsibility for each revolving fund assignment and sub-assignment must be vested in only one person. By having the fund vested in more than one individual, accountability becomes more difficult to maintain.

The Department needs to ensure that only one individual has custodianship of revolving fund assignments, and ensure revolving funds are secured in a locked safe or drawer.

### **Recommendation**

- 12. Department management ensure revolving fund assignments are vested in only one individual and revolving funds are stored in a locked drawer or safe.**

### **Collections and Deposits – General Controls**

We reviewed the Document Recording, Vitals, Real Estate Records, and Business Filing Sections' general controls and noted several additional areas where the Department can better control and monitor its collections and deposits.

### **Document Recording – Cash Registers**

We observed the overall collection and depositing process for the Document Recording Section and noted:

- Cashiers are not using existing cash register tapes to account for individual recording fees or to account for total cashier collections. Cashiers only enter the total fee in the register and the register tape is used only as a customer receipt. Cashiers account for all collections on handwritten logs.
- Checks received over-the-counter in the Document Recording Section are not sequentially accounted for by receipt or document number. Therefore, check totals for the day cannot be verified and there is a risk that cash and checks could be diverted. The Department can improve accountability over checks by using cash registers to separately identify cash and check collections.

The Department is pursuing the purchase of modern electronic cashiering equipment as recommended by Strategica. When implemented, the new equipment should help streamline the entire document recording process and improve cashiering controls. In the interim, Department management should ensure Document Recording staff use existing cash registers tapes to account for all collections.

### **Recommendation**

- 13. Department management ensure staff use cash registers to account for all collections.**

### **Collections Safeguarding**

The Department can improve procedures to better safeguard collections prior to deposit. We observed the following:

- Checks are not immediately restrictively endorsed in the Document Recording Title Company Section and for mail collections in the Vitals Section as required by CFM Section 1.3.4. Both sections endorse checks at the time of deposit which ranges from one full day to two weeks after receipt depending on whether the checks were received through the mail, over-the-counter, or from in-house title companies (deposit timeliness is discussed further later in this report).
- Blank, pre-signed checks<sup>1</sup> are left in an unsecured area. CFM Section 1.1.4 requires cash and other negotiable instruments to be secured in a safe at a location preferably away from public view or access. The Department should ensure checks are locked in a secure area until deposited, away from public view or access.
- A log of checks received is not maintained, and mail is not opened by two employees in the Document Recording, Vitals, Business Filing and Real Estate Records Sections. CFM Section 1.3.5 requires departments with large volumes of mail to assign two employees to open the mail and record receipts. The Department indicated that due to its high mail volume, it would be impractical to assign two employees to open the mail. However, considering the Department's mail receipts average of \$234,200 per day, we believe the Department should assign two employees to open the mail and record receipts.

The Department should take action to improve procedures in the areas described above.

### **Recommendations**

#### **Department management:**

- 14. Ensure all checks are immediately restrictively endorsed and ensure staff use cash registers to perform this function, as appropriate.**
- 15. Ensure checks are stored in secure locations.**
- 16. Assign two employees to open the mail and record receipts.**

### **Collection Transfers**

The Department physically transfers certain collections between sections on a daily basis. We noted that these transfers are made with no record of the transaction and accountability is not maintained. For example, the Document Recording Section collects a certified copy fee on behalf of the Real Estate Records Section as a way of reducing the number of lines a customer must wait in. At the end of each day, the cash

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<sup>1</sup> Certain vendors provide the Department with pre-signed checks and authorize staff to sign and deposit the checks based on the services provided. This process is discussed further in the Credit Card Deposits Section below.

collected by the Document Recording Cashiers is put into an envelope and an employee walks the money over to the Real Estate Records Section. We tested collections for five days and determined the Document Recording Cashiers had collected a total of \$543 for certified copies for those five days. However, there were no records to identify the employee who transferred these funds to the Real Estate Records Section, nor how much money was transferred.

The cash transfers between sections reduce accountability and increase the risk of loss. To improve controls, the Department should discontinue physically transferring cash among sections. Sections should deposit all funds received and record amounts collected for other sections in the appropriate account(s) on the deposit permits.

### **Recommendation**

- 17. Department management discontinue physically transferring cash among sections, and require staff to separately identify and record collections received for other sections on deposit permits.**

### **Deposit Controls**

#### **Deposit Timeliness**

The Department does not deposit customer checks within one day as required by CFM Section 1.3.6. We noted that while the Document Recording Section deposits cash the day after collection, checks are held until Fiscal staff reconcile all collection information. These reconciliation procedures are time consuming and complex. Fiscal staff must compare collection information from cashiers to computerized reports from the Department's document indexing staff, complete multiple manual forms, and transfer numbers to various areas within these forms. This reconciliation takes approximately two weeks for each day's deposit and the Department holds the customer checks until the reconciliation is completed.

In the Vitals Section, the Department indicated that it prefers to hold checks until the customer's request is completed. The Department's stated it does this because customers sometimes become upset if their checks are cashed before they receive their certified copies. However, considering that the Section receives approximately \$17,900 in checks per day, we believe the risk of loss, as well as sound financial management, requires that the checks be deposited timely. Any adjustments needed as a result of reconciliation processes can be made separately from the actual deposits.

### **Recommendation**

- 18. Department management ensure all collections are deposited within one day of receipt as required by County Fiscal Manual Section 1.3.6.**

**Deposit Accuracy**

The Department is not properly accounting for collections prior to deposit. We noted instances where:

- Check collections did not match deposits in the Department's collection/deposit files. For two of five deposits we tested, the deposits were \$10 short and \$2.30 short respectively. We also tested cash deposits for five days and noted that the amount deposited did not agree to the amount reported as collected for all five days. The differences ranged from \$18.00 short to \$20.00 over. The Department did not identify shortages or overages in their daily collections for these discrepancies.
- Real Estate Records Section receipts did not match cash register batch receipts in two of five deposits tested. This resulted in discrepancies of \$6 and \$84 respectively for the two days.

We noted supervisors do not review and approve deposit records or the deposit permit prior to deposit. In addition, cash, which is deposited separately from check collections, is not independently verified prior to deposit. County Fiscal Manual 1.3.3 states that an individual independent of the cash receipting or depositing functions should reconcile the receipts to the deposits to verify that all collections are properly accounted for and deposited. Department management has recognized these problems and is working to improve their procedures.

**Recommendations****Department management:**

- 19. Ensure staff reconcile receipts to deposits and investigate any discrepancies.**
- 20. Ensure supervisors review and approve cash and check deposit records prior to deposit.**

**Credit Card Deposits**

The Department allows customers to pay by credit card for orders placed over the Internet, phone or fax. All credit card orders are processed by an outside vendor, VitalChek. For this service, the Department charges customers an additional \$5.00 fee which the Department pays to VitalChek. VitalChek charges customers' credit cards for all services, including the \$5 processing fee.

At the end of each day, the Department runs a report detailing the amounts due to VitalCheck and the Department. VitalChek provides each section with pre-signed check stock to use when recording the credit card collections due to the Department (i.e., the total credit card charges less the \$5 fee per order). Department staff prepare the check

daily and deposit it with the rest of the Department's collections. We reviewed five days' VitalChek transactions for both the Real Estate and Vitals Sections and noted:

- For one of five days, there was a shortage of \$90.00 in the Vitals Section because staff wrote the VitalCheck check for \$90 less than the amount indicated in the Department's VitalCheck report. Management indicated that this was the result of numbers being transposed when the check was written.
- For one of the five days, we could not verify that the VitalChek check was prepared and included in the Vitals Section deposit because the Department could not locate the supporting documentation.

As we noted in other areas, there is no supervisory review and approval of VitalChek collections or deposits. By not monitoring to ensure the VitalChek checks are prepared and accurately completed, the Department increases the risk of loss. The Department should take actions to ensure the VitalChek checks are accurately completed to prevent future loss.

### **Recommendation**

- 21. Department management ensure VitalChek checks are accurately completed and approved prior to deposit.**

### **Business Filing Deposits**

The Business Filing Section is responsible for issuing notary bonds and forwarding them to the Document Recording Section for recording in the County's public records. We tested notary bond charges and noted that the recording fee portion of all notary bond collections were deposited in the wrong revenue account. Specifically, for all four deposits tested, the total of each notary bond fee (\$25.00) was deposited into the Business Filing Section's revenue account. However, a portion (\$9.00) of each notary bond fee should be deposited in the Document Recording Section's revenue account for the recording services provided. As a result, a total of \$2,079 in recording fees was posted to the wrong account for the four days tested. Based on our sample results, an average of \$520 per day (\$2,079/4 days) or \$130,000 per year (\$520 x 250 days) may be posted to the wrong revenue account.

Department management should instruct staff on appropriate revenue posting procedures for notary bonds and monitor for compliance.

### **Recommendation**

- 22. Department management instruct staff on appropriate revenue posting procedures for notary bonds and monitor for compliance.**



**Document Recording Section—Notary Bond Recordings**

As mentioned, notary bonds are processed in both the Business Filing and Document Recording Sections. However, all of the funds are collected in the Business Filing Section. When the Document Recording Section records notary bonds, Document Recording staff account for the fees associated with the transactions as “receivables” and deduct the amounts from their daily deposits.

We noted the Document Recording Section does not track the number of notary bonds that are recorded. As a result, we were unable to verify that all notary bond charges, which are deducted from the Document Recording deposit, agreed with Business Filing receipts. The Department indicated there is no system in place to track the notary bonds that are transferred between the sections. This creates a lack of accountability for customer documents, and could result in undetected losses.

Department should develop procedures to track documents that are transferred between the Document Recording and Business Filing Sections to ensure all documents are all accounted for and all deposits are accurate.

**Recommendation**

- 23. Department management develop procedures to track documents that are transferred between the Document Recording and Business Filing Sections, and monitor to ensure all documents are all accounted for and deposits are accurate.**

**Document Recording**

The Document Section records an average of 2 million documents per year received from title companies, walk-in customers, government agencies, field locations, and by mail. The Section consists of the Examining, Cashiering, Indexing, and Imaging sections. Documents flow through each of these sections before final recording.

**Recording Fees - Accuracy**

The majority of recording fees for real property documents are established by the State. Determining the total fees for recording a document can be a complex process, involving factors such as number of pages, number of titles, and page size restrictions.

We reviewed 60 recently recorded documents received from title companies, walk-in customers, field locations, and mail customers, to ensure Document Examiners were accurately assessing document recording fees. We noted that five of the 60 (8%) documents contained fee calculation errors (four undercharges and one overcharge). In total, the five errors had a net undercharge of \$40 or \$0.67 per document tested. While the error amount per document is relatively small, based on an average of 2 million document recordings per year, undercharges would amount to approximately \$1.3

million per year. Due to the high volume of documents, supervisors do not review Examiners' fee calculations. The Department should consider implementing a spot-check system for recording fees to identify employees making errors, and take corrective action as necessary.

We also noted that there are no written procedures for the recording fee calculation process. Examiners rely on voluminous legal codes that do not always clearly describe fees or essential job duties. As a result, there is not always consistency in the determination of recording fees, particularly if an Examiner is inexperienced. The lack of written procedures also creates inefficiencies during the document recording process, since Examiners must search through the codes for specific criteria. The Section needs to develop written procedures that clearly identify the various document recording fees and essential job duties.

### **Recommendations**

#### **Department management:**

- 24. Ensure managers spot-check documents to ensure Examiners are calculating fees accurately, and provide additional training for Examiners found to consistently make errors.**
- 25. Develop standard written procedures for calculating recording fees and for resolving recording fee discrepancies.**

### **Recording Fees – Lead Sheets**

Examiners stamp various recording fees on a single document called a Lead Sheet. Lead Sheets are key documents in the recording process since they are the only record of fees charged and collected, and they are customers' only itemized receipt. In addition, Lead Sheets become part of the official recorded document.

As previously noted in the Strategica review, Examiners manually hand-stamp fees in various places on Lead Sheets and the stamps vary among Examiners. As a result, fees are sometimes difficult for Cashiers to read and we noted instances where Cashiers charged and collected incorrect fees (see Refunds and Overpayments Section below for further information on inaccurate customer charges). The Department should modify and standardize Lead Sheet forms to better support the fees charged for each document recorded.

We also noted staff are not always properly completing the Lead Sheets resulting in inefficiencies. For example, we noted:

- Examiners do not always disclose transfer tax amounts on the Lead Sheets. Therefore, Cashiers (who are not trained Document Examiners) are reviewing recorded documents to determine whether transfer taxes apply, and if so, attempt to

locate the tax amounts within the documents. Transfer taxes (which are discussed in the next section of this report) are often significant and are collected at the same time as recording fees.

- Examiners do not clearly disclose fee calculations. Certain fees can vary depending on the number of pages, the number of titles, penalties, etc. However, we noted Examiners do not always disclose fee sub-components on the Lead Sheets. Only the total fee is identified. In other instances, we noted Examiners disclosed fee sub-components with a variety of informal notations. Although disclosing fee calculations is not required, the lack of standardization results in confusion and questions from customers, who often do not understand how recording fees are determined.
- Examiners do not always record document titles on Lead Sheets. Missing title information requires the Department's Indexing staff to spend extra time verifying title information prior to entering information into the Department's computer system.
- Cashiers do not stamp Lead Sheets "Paid" once payment is received. We noted some customers would re-submit payment when their original documents (with the lead sheet) were returned after recordation even though they had already paid the recording fee.

The Strategica review made recommendations related to some of the issues noted above, such as combining examination and cashiering functions to expedite processing, electronically calculating and processing fees, and replacing hand stamping with bar code labels. Department management indicated they are currently researching cashiering and collection systems to help modernize the entire document recording and collection process. However, considering the large dollar amounts involved, in the interim, the Department should develop PC based Lead Sheet forms that Examiners could complete and print via computer. This would eliminate the need for the various fee stamps and could be designed to automate certain fee calculations. In addition, supervisors should ensure staff properly complete Lead Sheets.

### **Recommendations**

#### **Department management:**

**26. Develop a standard PC based Lead Sheet form that Examiners can complete and print via computer.**

**27. Monitor to ensure staff properly complete Lead Sheet forms.**

### **Underpayment Returns**

The Department frequently receives incorrect payments to record documents. This usually occurs when customers send documents, along with their estimate of the fees, through the mail for recording. If an underpayment occurs, regardless of how small, the

Department returns the document and check to the customer, and notifies the customer of the correct fee. Strategica reported and we concur that this process is cumbersome and recommended that the Department establish a “cash difference fund” for under/overpayments of \$10 or less in accordance Government Code 29373.1.

We noted that while the Department established an overage fund (discussed further below), they continue to return to customers all documents with underpayments. We believe the Department should reconsider establishing a cash difference fund and process documents received through the mail that are underpaid by \$10 or less.

### **Recommendation**

- 28. Department management establish a cash difference fund and process documents received through the mail that are underpaid by \$10 or less.**

### **Overpayment Refunds**

Government Code 29375.1 states if the Department receives payment from a customer that exceeds the fee by \$10.00 or less, the Department can either deposit the excess in an overage fund with the Treasury or refund the overpayment to the customer. (In other words, if the check is from \$1 to \$10 more than the required fee, the Department can keep the excess funds. If the check is for \$10.01 or more than the required fee, the entire excess must be refunded to the customer.)

We tested refunds for five days and noted that the Department was unnecessarily refunding payments from certain customers due to a misapplication of the \$10 threshold. Specifically, staff have been issuing refunds for payments in excess of \$9 of the actual fee, rather than \$10.01 or greater, as allowed by the State Code. As a result, we estimate the Department has been refunding an average of \$80 per day, or \$20,000 (\$80 x 250 days) per year more than necessary. The Department indicated that they have retrained their staff to ensure the correct threshold is used.

Department management should monitor staff to ensure they apply the correct overpayment threshold when refunding payments to customers.

### **Recommendation**

- 29. Department management monitor to ensure staff accurately apply the \$10 customer overpayment threshold.**

We also reviewed 30 specific refunds processed over five days to ensure the correct amount was being refunded. We noted two instances where the Department over-refunded customers. In one instance the customer was refunded \$20 because the cashier did not recognize a \$4 fee stamp on five documents. In another instance, the customer was issued a \$2 refund even though they sent in the correct payment. It appears the non-standardized lead sheets discussed above led to these errors.

In addition, we noted four instances where we could not verify if the Department refunded the correct amount, or even if a refund was due, because the Department did not maintain documentation of the amounts the customers originally paid.

In addition to developing PC based Lead Sheets as indicated in Recommendation 26 above, to help ensure customer refunds are accurate, Department management should ensure documentation is maintained to support all customer refunds.

### **Recommendation**

#### **30. Department management ensure documentation is maintained to support all customer refunds.**

### **Document Recording Accounts Receivable**

When government agencies record documents, the Department bills the agencies at a later date and classifies them as receivables. The Department also establishes receivables when customers underpay by more than \$10 for documents recorded through the mail<sup>2</sup>. The Department generates approximately \$625,000 in document recording receivables per year, and tracks the receivables on a computerized database.

We noted that the Department does not track accounts receivable by customer and does not have records of customer account balances as required by CFM 9.1.3. Instead, the Department tracks receivables by individual invoices. Although the Department's system is capable of tracking receivables by customer, this feature is not being used. As a result, for overdue accounts, the Department sends separate late notices for each unpaid invoice rather than combining all customer information in a single late notice.

We tested 56 accounts receivable and found that in six instances, customers were never billed. Not billing for these shortages resulted in lost revenue of \$120 for the five days tested. The Department has a policy not to bill for an underpayment unless it can identify the exact document where the underpayment occurred. However, many documents are charged the same fees and many documents are requested at the same time so the specific underpaid document often times cannot be identified. Although the specific document cannot always be identified, the Department can identify the transaction associated with the underpayment amount and the customer who should be billed.

To improve the accounts receivable processes, the Department should use the accounts receivable system to account for receivables by customer, and ensure all customers are billed.

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<sup>2</sup> Although Department policy is to return documents with an underpayment, some underpayments are not recognized immediately and the documents are processed. Once the Department recognizes the underpayments, they attempt to collect from the customers.

**Recommendation**

31. Department management use the accounts receivable system to account for receivables by customer, and ensure all customers are billed.



COUNTY OF LOS ANGELES

**REGISTRAR-RECORDER/COUNTY CLERK**

12400 IMPERIAL HWY. - P.O. BOX 1024, NORWALK, CALIFORNIA 90651-1024

**Conny B. McCormack**  
Registrar-Recorder/County Clerk

June 26, 2002

TO: J. Tyler McCauley  
Auditor-Controller

FROM: Conny B. McCormack *Conny B. McCormack*  
Registrar-Recorder/County Clerk

SUBJECT: **RESPONSE TO AUDITOR-CONTROLLER'S FISCAL REVIEW**

The Department of Registrar-Recorder/County Clerk (RR/CC), after considerable interaction with your audit team, has reached general agreement regarding your audit findings. We are pleased to report that the RR/CC is already in the process of implementing several of your audit recommendations. Additionally, many of your recommendations are included in the Strategica Management Audit recommendations regarding re-engineering of Recorder operations and are also being addressed.

The focus of the audit findings addresses the need to: 1) centralize cashiering operations to ensure consistent policies and procedures are followed and 2) implement an internal compliance review unit in our Financial Services Section to monitor high-risk cash collection activities, and develop uniform collection and depositing procedures throughout the Department. As stated, we are in general agreement with these recommendations but will continue discussions with your audit team regarding a final action plan and ultimate resolution.

Based on our understanding, the next phase of the audit will be comprised of Personnel/Payroll, Procurement and Contracts, Accounting, and Budgeting. Thank you for your assistance in identifying areas where our internal controls and fiscal operations can be improved.

If you have any questions or require further information, please call me or your staff may contact Al Lecesne at (562) 462-2636.

c: Al Lecesne  
Kathleen Connors